# The Missing Link in Fibonacci Trading

There is one primary problem with trading Fibonacci retracements. That is, where is it going to stop?

You know what I'm talking about. Suppose there's been a strong move up. Then the price starts retracing. You've drawn your Fibonacci lines in. Price nears the 31.8% line. Will it bounce here? Will it go through?

That used to frustrate the heck out of me. It frustrated me so much that I threw Fibonacci away entirely. Yet, something was niggling me in the back of my mind; but I ignored it.

You know what was bothering me? The fact that Fibonacci works. Retracements often bounce exactly. So how could I make this work for me in real time? I couldn't figure it out.

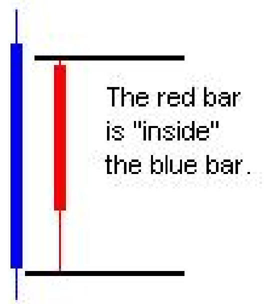
Around this time I started getting interested in Bollinger bands. My favorite trade setup with them was the squeeze. You know, the bands get tighter and tighter indicating less and less volatility. Then the price explodes. (As a side note, the market moves from more volatility to less volatility and then back again. When there's less volatility, you can set yourself up to grab the move that's bound to happen. That’s why this method works.)

That method still works well and probably will until the end of time. While I was trading with the Bollinger bands, I had the feeling like the answer to my Fibonacci problem was right in front of me. But I couldn't get it. My brain works on its own schedule; I couldn't force the answer out of it, even though I could feel it was right in front of me.

Indeed, it was right in front of me. The principle of less volatility to more volatility is valid across the whole market. It doesn't only apply to Bollinger bands. Enough already? I'll tell you what I finally realized.

Ever hear of an inside bar? In case you don't know what one is, I'll quickly explain it. An inside bar is a bar that's high is less than the high of the bar before it. Its low is higher than the low before it.

A picture should clear things up.



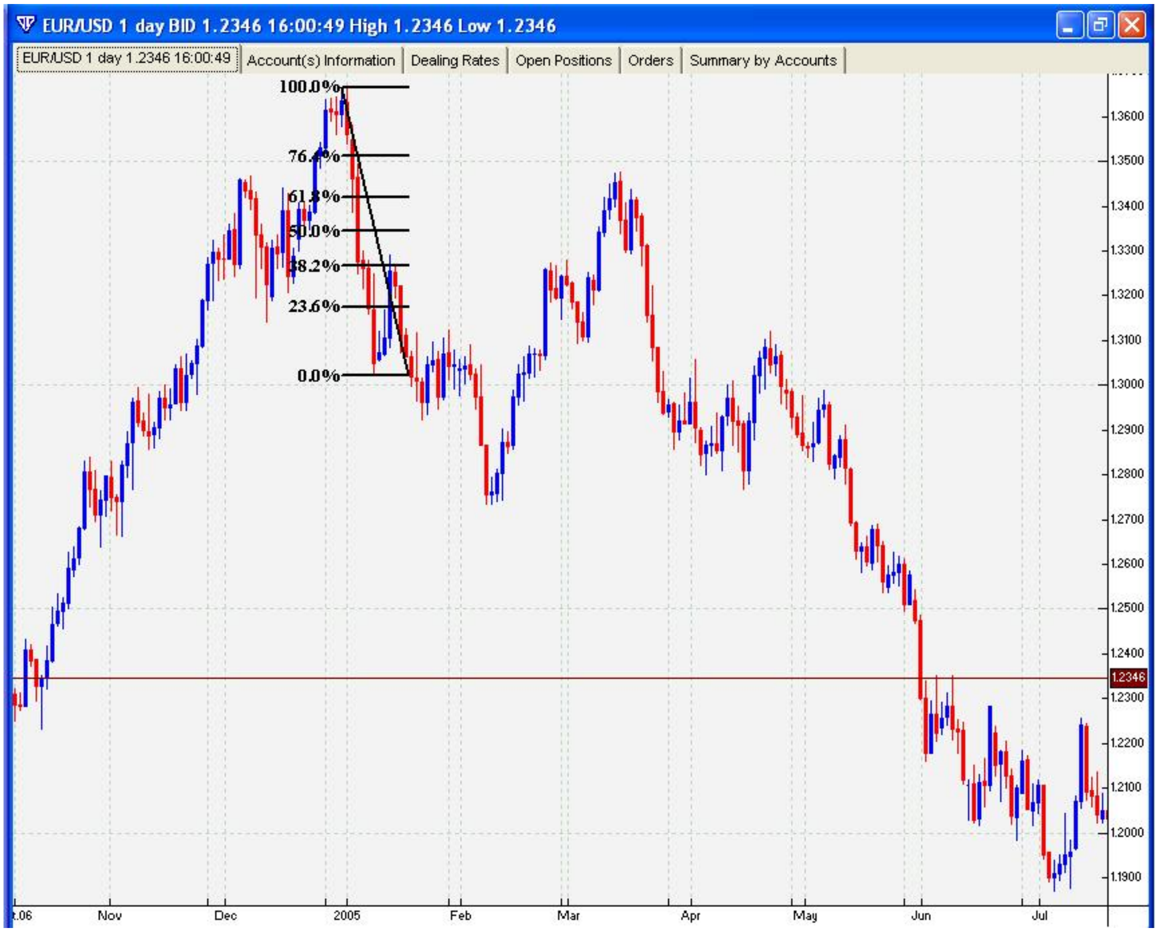

See? The high is lower than the previous bar, and its low is greater than the low before it. It's inside.

Now, what does an inside bar signify? There is less price movement. Are you getting it? Less price movement means less volatility, and as I said above, less volatility means that the market is consolidating and getting ready to move.

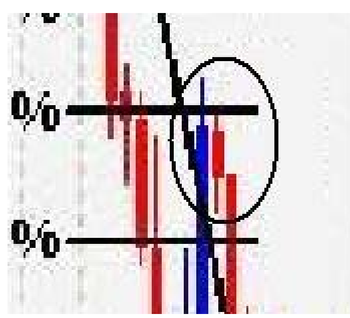
Let's take this a step further. What if you got an inside bar near or exactly on one of the retracement levels (31.8%, 50%, etc.)? Exactly! The market is telling you that this is the level it's going to stop at (most likely). It's telling you here is where you get in to catch the bounce back.

Let's look at some examples on the next page.

Here is the bird's eye view. Let's drill down.



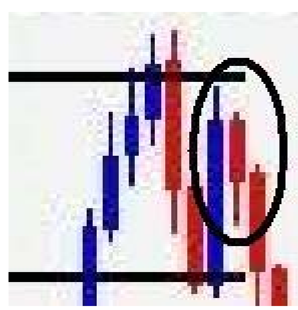

Here's a closer look. See the inside bar that I've circled?

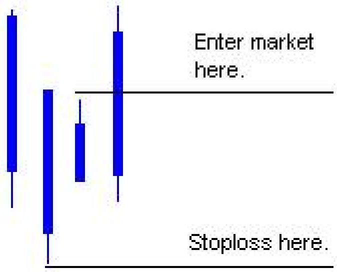
See how it consolidated and then bounced? Let's look at one more example.

Here again is the bird's eye view of the price action. (Same chart, by the way.)


Retraces all the way to 76.3%. Here's a closer look.

Take a look below to see how you might enter the marke and place your stoploss.




Now it's your turn. Go to your charts. Find the fib retracements. Look for the inside bars. Try trading some with demo money. I think you'll like it.

You have my favorite method of trading fib retracements. It's good and will work for you if you put in the work to understand and apply it.

To your trading success,
Nathan